

7 Rules For Raising Money Smart Kids: Can You Indulge Your Children Without Spoiling Their Chances of Becoming Responsible Adults?

Money

By Jean Chatzky Additional Reporting by Carolyn Bigda and Makebra Anderson
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(MONEY Magazine) – Whether you are the parent of a toddler with a burgeoning vocabulary, a kindergartener just learning to read or a 12-year-old headed off to middle school for the first time, there are days when your imagination runs amok. You see that child at 16. He turns up his nose at driving the family car--not cool, he says, too old man. Away at college a few years later, he racks up credit-card bills the size of your mortgage. And upon graduation, your child--the model of independence in first grade--moves back in with you. Why buy groceries when he can raid the fridge for free?

An overstatement? Clearly. But many of us are giving our kids so much, doing so much for them, that we may be spoiling their chances of growing into responsible adults.

Like every generation of parents, we want to make our children happy. And our kids know what they want. They want more. According to American Demographics, the average 21-year-old has seen or heard 23 million "advertising impressions," from billboards to the Nike swoosh. Marketers employ peer-to-peer marketing techniques, outfitting the country's alpha girls in trendy fashions their followers will copy and placing products in movies or TV shows that resonate with kids.

Allowing our kids to focus on consuming stuff can wreak havoc on their mental and physical health, argues Boston College economist Juliet B. Schor, author of *Born to Buy*. In her survey of 300 fifth- and sixth-graders, Schor found that children who can't be pried from video-game consoles, TV or the Internet to do their homework or play outside are more likely than their peers to suffer from depression, boredom, headaches and stomachaches.

As those children age, the problems may escalate, according to two studies cited by Tim Kasser, a professor at Knox College in Galesburg, Ill., in his book *The High Price of Materialism*. The more importance teenage respondents gave to amassing money and things, the more likely they were to say they smoked, chewed tobacco, drank alcohol, used marijuana or had sex. And when Connie Dawson, a therapist in Kirkland, Wash. and co-author of *How Much Is Enough*, surveyed 1,200 adults, 71% of those who said they had been overindulged as kids reported not feeling satisfied as grown-ups.

So how do you make sure that your kids grow up to know the value of a buck, work hard, pay their bills and not be taken in by cons and harebrained schemes? Dozens of experts in child development, psychology and finance, as well as a number of kids and parents, helped us develop these seven rules. Underlying them all is a simple truth: You can't teach children to be responsible about money until you teach them to be responsible, period. And note: Starting with a child in middle or high school doesn't give you license to skip the first steps. Kids have to learn the basics before they can progress.

Rule 1: Teach them to make good choices

Making choices is part of life. You can't have both the minivan and the SUV, the notebook computer and the desktop. Kids as young as 18 months to two years old can be taught that they can't have everything, says Elizabeth Crary, a parent educator and author of *Pick Up Your Socks and Other Skills Growing Children Need*. Begin with two choices (Do you want to wear the red coat or the blue coat? Do you want to eat at Olive Garden or the Chinese place?), but move on quickly to three or four. "If you give only two choices, a child learns to handle only two," Crary explains. By the time children are four years old, they can often handle five or six.

Smart parenting dictates that you never make an offer you're not willing to abide by. But the critical thing is that once your kids make a decision, they have to live with it. They have to learn that although there isn't always one right choice, there may be one that's better than others. So when your son chooses a Snickers and later pines for a Three Musketeers, you acknowledge that he feels sad and wishes he'd made a different decision. But don't cave in and buy him another candy bar.

Rule 2: Set reasonable limits

For his book *Too Much of a Good Thing: Raising Children of Character in an Indulgent Age*, Dan Kindlon, a professor of psychology at Harvard University, surveyed nearly 1,100 parents and 700 teens. His research showed that kids who had consistent limits set for them--limits on everything from swearing to playing violent video games --were less likely to lapse into drug use and depression than others without such restraints. These sorts of boundaries mattered more than the amount of money a family had or even how much allowance the children were given.

The key is to begin with one limit at a time. "If your kids aren't picking up their towels, tell them it's going to cost them \$1 off their allowance every time you have to pick up a towel for them," suggests Kindlon. "Get that under control and then move on." Kids will respond to different things. For some, money will do the trick; for others, it's restricting TV or access to the computer or the car.

Outside the home, do what you can to control their surroundings--by not allowing them, for instance, to play at the homes of kids who spend all afternoon staring at the TV. This will work until your child hits middle school. At that point rebellion and peer pressure set in, and you'll need to conspire with other parents in your child's social circle. But if your son's best friend's parents think it's fine for him to have the unedited version of the Eminem CD, you'll just have to be the bad guy.

Rule 3: Give an allowance

Setting limits is difficult--especially if you've been the type of parent to say yes when your child asks for a trip to the toy store or candy at checkout. There will be nagging. The best response: an allowance. Once your kids have discretionary money of their own, you can begin to say that you won't pay for another DVD, but they can buy it themselves.

Many parents start with \$1 a week for kindergarteners and go up by \$1 a year through elementary school. Ronda Peyton, a mother of two outside Los Angeles, talked to other parents before deciding that Marquel, 14, would get \$10 a week and Erika, 9, would get \$5. But the best way to set a number is to decide what it's supposed to cover. Make a list, attach prices, add it up and present it to your kids. That's how Chicago mom Susan Beacham, who runs a financial education company called Money Savvy Generation, decided to give 12-year-old Allison \$25 a month for extra clothing and accessories and \$25

for toiletries. "It sounds like a lot, but in the long run it saves me money," Beacham says.

Here are the allowance ground rules. First, it's theirs. It's fine to insist that they save money and give to charity as long as that's in keeping with your family's philosophy and practice (see rule 7). But if they want to blow a bundle on the ugliest shirt in the store, you have to permit it.

Second, don't tie an allowance to chores. Your kids may decide they'd rather not do the work, and let you keep the money. Then you're back at square one, with them nagging you. Remember, you want them to get the money because you want them to learn to manage it.

Consider Karen Marques, a mother of three boys, 8, 7 and 3 1/2, in Marietta, Ga. She made her sons' allowances contingent on their dressing themselves and cleaning up their toys as preschoolers, and setting the table and emptying the dishwasher as they got older. That's how she was raised, she says, and it worked for her. When the chores aren't done to her satisfaction, she starts deducting. Then the whining begins. "They want to know if they do better this week, will they get this week's allowance and last week's allowance," she says. "They're always negotiating."

Rule 4: Help them learn to wait

It's up to you to teach your kids that getting things they've had to wait for feels better than getting them just by asking. That's what Ronda Peyton saw her son Marquel experience with his recent purchase of a laptop computer. Because it was so expensive--especially given his \$10 allowance--Ronda and her husband offered to match whatever Marquel saved, 401(k)-style. By pooling his allowance with his birthday and holiday money and cash he earned doing extra chores, he reached his target. "Making our kids buy their own things has made them value the things they buy," says Ronda. "They shop around instead of making impulse purchases. And they take care of their possessions a lot more."

With young kids, the wait should be shorter--a week, perhaps. By the time they're eight or nine, Elizabeth Crary advises, "You can say, 'Do you want to save half your allowance and get that game in eight weeks, or save all of your allowance and get it in four?'"

Rule 5: Encourage work

All of these lessons become most meaningful to your children when they begin talking about money they have earned.

Barbara and Glenn Miller of Briarcliff Manor, N.Y. encouraged their daughter Amanda, 17, to work early on. They paid her to do jobs that they would have paid outsiders to do, from washing the car to babysitting. As Amanda's desire for expensive things outstripped the value of the jobs they had for her to do, they suggested she waitress at the nearby golf course. When she got her driver's license, she added a second job, in a store that sells the trendy clothes she loves. "She never asks me for money for anything," says Barbara proudly.

Working in high school and college--to the extent that it doesn't interfere with schoolwork--seems to pay off later in life. According to a study conducted by Roper ASW in 2003, people who worked in high school are much more likely to achieve their financial goals and be knowledgeable about money than those who did not.

One caveat: "Sometimes," Crary says, "parents pay their kids a lot of money to do a small chore. The kids expect to get that same amount or more outside the home." Be realistic about the going rate.

Rule 6: Teach value

Children can learn to exchange money as soon as they can count. It's tougher to teach them to appreciate value. "That's why you'll see a second-grader with \$10 in her wallet and a parent lamenting that they can't pay the mortgage, and the child says, 'Mommy, I'll pay for it,'" says Money Savvy Generation's Beacham. "They understand penny, nickel, dime, quarter. But they don't understand how much you have to accumulate to buy a car."

Crary has a tip for helping little ones learn about value: When they want a toy, ask how important it is to them, on a scale of one to five. All kids, she says, will answer five. After they've had the item for a week, ask that question again. Rather than telling them the toy they want isn't worth the price, you're helping them develop the ability to make their own judgments.

Around the age of 11 or 12, children's math skills begin to support understanding of bigger numbers like \$30,000 or \$100,000. That's when you can start putting their newly learned skills to work. Beacham and her daughters made a list of everything they needed for school. She gave each one a \$500 budget, and off they went to the mall. "It didn't bother my kids at all to stop and sit on the floor and do the math after every transaction," she says, laughing. And they learned you can get four shirts at Target for the price of one at Gap stores.

Rule 7: Walk the talk

Be consistent. And don't be hypocritical. That means that when you start your kids on an allowance, you give it to them on time, in full and as promised. "I can't tell you how many kids have said to me, 'My parents owe me \$234, but I'll never see it,'" says Beacham. "That's why we have 20-year-olds who don't think they have to pay their credit-card bills." It means that if you tell your kids they should be home at 11, or that they have to pay for half of a new iPod, you stick to your guns. It also means that if you insist that they save part of their allowance or give part of it to charity, they see you saving and giving as well.

And it means that you must remember who's who in this discourse. You can't always be the good guy. You have to be the grown-up. Today's parents have a habit of trying to talk kids out of what they want. We think that if we throw enough logic on the table, our kids will come around and say, "You know, when I look at these sweatpants, I can see they're kind of overpriced and not that well made." Give it up.

The next time your child demands, "What kind of parent are you?" when you won't buy him another DVD, take a deep breath and answer, "The kind who believes you have enough already. But if you would like another one, when you've saved enough money, I'd be happy to drive you to the store."

ADDITIONAL REPORTING BY CAROLYN BIGDA AND MAKEBRA ANDERSON